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21

ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01 IO-14

ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00

DODE-00 FEA-02 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00

NSC-07 OMB-01 PM-07 SAM-01 SCI-06 SP-03 SS-20 STR-08

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 3642

INFO AMEMBASSY ADDIS ABABA

AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USINTERESTS SECTION ALGIERS

US MISSION OECD PARIS

C O N F I D E N T I A L LAGOS 3340

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: ENERGY: NIGERIA ACQUIRES 55-PERCENT PARTICIPATION IN
OIL COMPANIES

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REF: LAGOS 2576 NOTAL

SUMMARY: THE NIGERIAN GOVERNMENT HAS CONCLUDED AGREEMENTS WITH PRODUCING OIL COMPANIES EFFECTIVE APRIL 1, 1974, WHICH GIVE THE GOVERNMENT 55 PERCENT PARTICIPATION IN ENTIRE PETROLEUM PRODUCING INDUSTRY AS WELL AS 13.75 PERCENT OF TOTAL PRODUCTION FOR DIRECT SALE. TAX-PAID COST OF THE REMAINING 86.25 PERCENT MARKETED BY THE PRODUCING COMPANIES NOW AVERAGES ABOUT \$11.00 PER BARREL FOB. TOTAL GOVERNMENT REVENUE INCREASES ABOUT \$2 BILLION PER YEAR TO NEW ANNUAL RATE OF MORE THAN \$9 BILLION (AT CURRENT LEVEL OF PRODUCTION). END SUMMARY.

1. FEDERAL MINISTRY OF MINES AND POWER CONCLUDED NEGOTIATIONS WITH GULF AND MOBIL APRIL 17 RESULTING IN 55-PERCENT PARTICIPATION AGREEMENTS AS DESCRIBED REFTEL (ALSO SEE PIW FOR APRIL 8). MINISTRY EARLIER REACHED SAME AGREEMENT WITH SHELL-BP AND IS EXPECTED TO DO SO MOMENTARILY WITH PHILLIPS, AGIP, AND SAFRAP (ERAP). TALKS WITH THESE COMPANIES HAVE BEEN IN PROGRESS SINCE MARCH 27; ONLY AGIP IS KNOWN TO BE GREATLY OPPOSED. (STATUS OF ONLY OTHER PRODUCER, TEXACO/CHEVRON WHICH ACCOUNTS FOR LESS THAN .25 PERCENT OF ALL NIGERIAN OIL, IS COMPLICATED BY RUMORED DISCUSSIONS WITH GOVERNMENT ABOUT LOW PROFITABILITY.)

2. ACCORDING AMERICAN SOURCES, ONLY ELEMENT OF GOVERNMENT PROPOSAL REJECTED BY THE COMPANIES WAS BUY-BACK PRICE EQUAL TO 95 PERCENT OF POSTED PRICE (CURRENTLY \$14.691 PER BARREL AT STANDARD 34 DEGREE GRAVITY). BUY-BACK PRICE AGREED FOR APRIL 1-JUNE 30 QUARTER ONLY IS \$13.00 PER BARREL (88.49 PERCENT OF POSTING) FOR 50 PERCENT OF THE GOVERNMENT'S 55-PERCENT SHARE WHICH THE COMPANIES HAVE A RIGHT TO BUY -
BACK AND \$13.25 PER BARREL (90.19 PERCENT OF POSTING)
FOR ADDITIONAL 25
PERCENT COMPANIES MAY BUY ON BASIS FIRST REFUSAL.

3. IN SEPARATE ACT, GOVERNMENT HAS WITHDRAWN ITS INTENTION TAKE FURTHER ROYALTIES IN KIND. "GOVERNMENT OIL" CAN THEREFORE BE ACQUIRED FROM NOW ON ONLY THROUGH PARTICIPATION WHICH, IF ALL COMPANIES EXERCISE THEIR FIRST REFUSAL OPTIONS UNDER THE NEW AGREEMENTS, WILL GIVE THE GOVERNMENT 13.75 PERCENT OF TOTAL PRODUCTION (OR MORE THAN 300,000 BBL/DAY) FOR DIRECT MARKET SALES BY THE
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NIGERIAN NATIONAL OIL CORPORATION (NNOC).

4. ACCORDING EMBASSY CALCULATIONS, TAX PAID COST (WHICH BOTH COMPANIES AND GOVERNMENT PAY FOR EQUITY OIL) CURRENTLY AVERAGES APPROXIMATELY \$9.08 PER BARREL. NNOC SALES WOULD BE PROFITABLE AT ANY PRICE ABOVE THIS FIGURE. TAKING INTO ACCOUNT 27.5 PERCENT OF TOTAL PRODUCTION WHICH COMPANIES WILL BUY BACK AT \$13.00 AND 13.75 PERCENT THEY CAN BE EXPECTED TO BUY BACK AT \$13.25,

THE AVERAGE COST OF COMPANY OIL RISES TO VERY NEARLY \$11.00 PER BARREL.

5. COINCIDENTALLY, GOVERNMENT AND NNOC COULD HENCEFORTH RECEIVE ABOUT \$11.00 FOR EACH BARREL PRODUCED AS ESTIMATED IN THE FOLLOWING BREAKDOWN:

	TIMES OF TOTAL PRODUCTION \$ PER BBL	PERCENT AFFECTED	EQUALS \$ PER BBL OF TOTAL PRODUCTION
AVERAGE ROYALTY	1.72	100	1.72
AVERAGE PROFITS TAX	6.86	100	6.86
BUY-BACK MARGIN (AT \$13.00)	3.92	27.5	1.08
BUY-BACK MARGIN (AT \$13.25)	4.17	13.75	.57
DIRECT SALE MARGIN (ASSUMING MARKET SALE AT POSTED PRICE)	5.61	13.75	.77
TOTAL		11.00	

6. AT CURRENT PRODUCTION OF NEARLY 2.3 MILLION BBL/DAY, TOTAL GOVERNMENT AND NNOC REVENUE CAN THEREFORE BE EXPECTED TO TOTAL ABOUT \$25 MILLION PER DAY OR MORE THAN \$9 BILLION PER YEAR. OF COURSE PART WILL BE USED TO COMPENSATE THE OIL COMPANIES FOR ACQUISITION OF THE GOVERNMENT'S 55-PERCENT INTERESTS.

7. THE FOREGOING INFORMATION MUST BE HELD IN STRICTEST CONFIDENCE OR EMBASSY SOURCES WILL BE COMPROMISED. PUBLIC ANNOUNCEMENT
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OF THE NEW AGREEMENTS (PROBABLY LACKING SOME DETAILS SUCH AS BUY-BACK PRICES) IS EXPECTED SOON.

8. COMMENT: THE NEW AGREEMENTS GREATLY SIMPLIFY THE PATTERN OF NIGERIA'S PETROLEUM INDUSTRY. ALL PRODUCING COMPANIES (WITH THE POSSIBLE EXCEPTION OF TEXACO/CHEVRON) WILL NOW HAVE THE SAME STANDING VIS-A-VIS THE NIGERIAN GOVERNMENT, AND, SO LONG AS THE NEW AGREEMENTS ENDURE, THE QUANTITY AND PRICE OF OIL AVAILABLE TO PRODUCING COMPANIES WILL BE RELATIVELY PREDICTABLE. THE NNOC IS ASSURED A SIGNIFICANT QUANTITY OF CRUDE OIL WHICH IT CAN SELL PROFITABLY EVEN AT PRICES WILL BELOW POSTING. IN THE PETROLEUM SECTOR OF THE NIGERIAN ECONOMY, THE GOVERNMENT HAS ACHIEVED FAR EARLIER THAN IT RECENTLY THOUGHT POSSIBLE ITS GOAL OF MAJORITY CONTROL.

9. FYI, A DELEGATION TO TOP MOBIL EXECUTIVES, INCLUDING PRESIDENT W.P. TAVOULAREAS, WAS VISITING LAGOS AT THE TIME OF THE AGREEMENTS WITH GULF AND MOBIL. ACCORDING TO COMPANY SPOKESMEN, THE VISIT WAS NOT DIRECTLY RELATED TO THE NEGOTIATIONS IN PROGRESS AND COINCIDED ONLY BY CHANCE WITH THEIR CONCLUSION.
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